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Export Surcharge on Crude Palm Oil- A Move to Control Prices

Report Categories:

Biofuels

Oilseeds and Products

Trade Policy Monitoring

Trade Policy Incident Report

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Report Highlights:

TH2056. On May 18, 2012, the Ministry of Commerce imposed an export surcharge of 10 baht/kilogram (approximately \$317/mt) on crude palm oil (CPO), Harmonized Code 1511.10.00, effective immediately until June 30, 2012. It is the first time in recent history that the government imposes an export surcharge/tax on agricultural products. The move came after the Cabinet agreed on April 17 to import 40,000 metric tons of semi-refined palm oil to alleviate palm oil shortages and increasing prices. However, these two measures have been opposed by a group of crude palm oil crushers and oil palm farmers and it is likely that the Cabinet will decide to suspend the measures in the next few weeks. The government apparently imposed these measures to cope with rising food/consumer product inflation which has become a hot political issue in Thailand.

Executive Summary

On May 18, 2012, the Ministry of Commerce imposed an export surcharge of 10 baht/kilogram (approx. \$317/mt) on crude palm oil (CPO), effective immediately until June 30, 2012. It is the first time in recent history that the government imposes an export surcharge/tax on agricultural products.

According to an interview, Thailand's Minister of Commerce said that the Ministry of Commerce was worried that surging export prices have induced increased exports of CPO over the past few months. If this trend continues, the level of supplies would fall short of meeting domestic demand, for human consumption and biodiesel production, and fears that the government fears it would not be able to control runaway domestic retail prices for refined palm oil, which are currently selling at 42 baht/liter (\$1.33/liter). According to the Thai Customs, Thailand's CPO exports significantly increased to 95,205 metric tons in the first quarter of 2012 (Jan-Mar), as compared to 293 metric tons in the same period of 2011.

The April 17 Cabinet decision to import 40,000 metric tons of semi-refined palm oil to alleviate palm oil shortages and increasing prices, seems not to be assuaging shortage fears. Under this decision, the Public Warehouse Organization (PWO), a government enterprise, would limit the imported amount to 10,000 metric tons per import in order to prevent a possible decline in domestic prices that could hurt palm farmers.

However, these two measures have been opposed by a group of crude palm oil crushers and oil palm farmers and it is likely that the Cabinet will suspend the measures in the next few weeks. Thai Oil Palm and Palm Oil Association (TOPOA) as well as other relevant palm grower and crusher associations submitted a petition to the National Palm Oil Committee (NPOC), chaired by Deputy Prime Minister Kittirat Na Ranong on May 23 to voice their opposition. They claim that the imposition of the export surcharge is illegal because the Ministry of Commerce did not submit the initiative to the NPOC for its review and approval. The crushers and farmers claim that the fears are unfounded as domestic prices for fresh fruit bunch (FFB) of oil palm have dropped sharply by 23 percent, from 6.20 baht/kg (\$197/mt) in April to currently 4.80 baht/kg (\$152/mt); and the export surcharge measure would aggravate the situation. In addition, they argue that the government should discontinue allocation of palm oil imports since increased supplies of domestic palm production currently meet demand. According to the Secretary General of TOPOA, the NPOC agreed that both measures of palm oil imports and export surcharges be removed and Deputy Prime Minister Kittirat promised to propose the NPOC's agreement and recommendations for the Cabinet's consideration.

Rising food/consumer product prices has become a hot political issue as the current government is being blamed for runaway inflation. In order to relieve the public's dismay, efforts have been made that include extending the number of products under price control, cooperating with consumer product manufacturers to freeze retail prices for a period of time, and an establishment of thousands of government-sponsored grocery shops across the country. The decision to import semi-refined cooking palm oil and to control CPO exports is just another effort to cope with rising retail prices as cooking oil is considered an essential product for Thai households.